

Central Intelligence Agency



Washington, D. C. 20505

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The Honorable Morton I. Abramowitz
Director
Intelligence and Research Bureau
Department of State
Washington, D.C. 20520

Dear Mort:

Chinese economic performance was, indeed, remarkable in 1984 and appears to be on a similar track this year. Chinese leaders, in fact, are increasingly concerned that their rapid industrial growth is feeding inflation and dangerously overheating the economy. As you note, however, official statistics may overstate Chinese industrial performance for a number of reasons:

1. Enterprises are increasingly purchasing intermediate goods from other firms rather than manufacturing inputs themselves, and these transactions may now be included in the gross value of industrial output. 25X1
2. Chinese calculations of real growth may not be adjusted for price increases for some products. 25X1
3. Beginning this year, the Chinese have changed their method of recording the output of village industries, resulting in a somewhat higher growth rate than would have been recorded under the old method. 25X1
4. Production of low-quality goods continues to be a problem. 25X1
5. Local officials may exaggerate their production statistics. 25X1

We are currently working on a short study of economic growth in China that will address these questions in more detail. 25X1

Based on 30-year historical trends, we believe it is possible for China to quadruple its 1980 output level by the year 2000. The probability of meeting that goal will, of course, be increased if the economic reforms are implemented smoothly and political stability is maintained. The energy and transport sectors, nonetheless, will continue to constrain growth. Chinese media continue to report that recent industrial growth has

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Ambassador Morton I. Abramowitz

strained raw material and energy supplies as well as transportation networks. Chinese officials are also concerned that the rapid growth is prompting excessive use of foreign exchange holdings. [redacted]

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In order to follow through on its economic reform program, China will continue to need imports of industrial machinery and, probably to a decreasing extent, raw materials. It will, however, be able to substitute domestic supplies for several commodities that have been imported largely from the United States, such as cotton, grain, and synthetic fibers. [redacted]

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Over the past two years, we have completed a number of studies that have focused on economic reform in China, developments in the energy and transport sectors and their impact on economic growth, and on US-China trade issues. During 1985-86, while we will continue to do in-depth studies of specific sectors or industries, we also plan several overarching studies that will examine both the progress of reform and those factors that will constrain growth. [redacted] will make sure that you and your China people have the opportunity to comment on our proposed 1986 research program and we would be happy to consider additional topics for research and analysis in the coming year. [redacted]

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/ s / Sincerely,

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[redacted]
Robert M. Gates
Deputy Director for Intelligence

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[redacted]
OEA/CH/DEV: [redacted] (4 June 1985)

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